

Fathom Oceanology Limited

Revised January 31, 1986 (IC)

CUSIP Number 311899

Stock Symbol FAM

Destroy all previous Basic and White cards on this Company

Head Office — 6760 Campobello Rd., Mississauga, Ontario L5N 2L8

Telephone — (416) 821-8730

THE COMPANY provides custom-engineered equipment, products and technical services for defense and commercial marine applications from manufacturing facilities in Mississauga, Ont. and Dartmouth, N.S.

COMPARATIVE DATA									
Fiscal Year	Total Assets	Net Fixed Assets	Working Capital	Shldrs.' Equity	Revenue	Net Inc. Oper.	Earns. Per Sh.	Price Range	High Low
000's							— Common —		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
1985....	9,676	1,279	2,437	3,521	11,698	d72	d0.03	3.40	1.25
1984....	8,193	1,152	3,020	4,594	8,339	d459	d0.16	6.00	2.50
1983....	7,873	1,143	3,520	5,184	9,329	479	0.23	4.50	1.31
1982....	3,808	346	1,229	1,739	4,253	214	0.11	2.95	1.00
1981....	2,263	280	1,208	1,425	3,537	308	0.16	□ 2.90 □ 2.00	

† Previous calendar year. □ Listed Aug. 14, 1980.

CONSOLIDATED CAPITALIZATION AS AT MARCH 31, 1985			
		Outstanding	%
Common stock	3,027,062 shs.	\$4,463,000	127
Retained earnings		d942,000	(27)

SUMMARY STATEMENT

Preliminary results for the six months ended September 30, 1985, showed \$323,000 net income (11 cents per share) on contract revenue of \$6,031,000. The company has changed its fiscal year-end to Sept. 30, 1985 resulting in this six-month fiscal period.

Acquisition of the operations of The H.I. Thompson Company of Canada Limited, a Guelph-based manufacturer of heat shields, insulation blankets and related aerospace products was announced in October 1985.

Net loss for the year ended Mar. 31, 1985, totalled \$1,367,000 or 48 cents per share including \$1,295,000 provision for losses on discontinued operations. Net loss, before the extraordinary item was \$72,000 or three cents per share, including a \$701,000 loss attributed to non-consolidated subsidiaries. Restated accounts for 1984 to reflect Fathom, Inc. the wholly owned U.S. subsidiary as discontinued operations showed a loss of \$460,000 or 16 cents, including \$551,000 loss of unconsolidated subsidiaries and an extraordinary loss of \$150,000 boosting net loss for the year to \$610,000 or 21 cents per share. Revenues were \$11,698,000 up substantially from a restated \$6,976,000.

Fleet Aerospace Corporation increased its ownership in the company to 83% in March, 1985 through a share purchase offer.

Discontinued operations included wholly owned British subsidiaries, Almondbury Limited and Fathom Oceanology (U.K.) Limited in 1984, and wholly owned United States subsidiary, Fathom Inc., during 1985.

N.B. — For quick reference data, see page 2.

The Financial Post

INFORMATION SERVICE

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McGILL UNIVERSITY

QUICK REFERENCE DATA

Major Shareholder—At August 28, 1985, Fleet Aerospace Corporation held 83% of the outstanding shares.

Employees—At September 25, 1985, the company had approximately 150 employees.

Incorporation—Canada letters patent dated December 6, 1968; continuance, September 28, 1977.

Auditors—Clarkson Gordon, C.A., Mississauga.

Fiscal Year Ends—September 30.

Annual Report Appeared—In August in 1985.

Annual Meeting—September 24 in 1985.

Bankers—Bank of Montreal, Toronto; Royal Bank of Canada, Dartmouth, N.S.; Midland Bank Limited, Sherborne, England; Old Stone Bank, Providence, R.I.

Listed—FAM, Toronto Stock Exchange.

Shareholders—As at September 25, 1985, there were approximately 300 shareholders.

Transfer Agent—National Trust Company Limited, Toronto, Calgary.

COMPANY

The company provides custom-engineered equipment, products and technical services for defense and commercial marine applications. The company develops and manufactures high performance fairings for towing cables, towed bodies, ship hull-mounted sonar domes, vortex shredding suppressors for marine structures and handling equipment for both variable depth and towed array sonar systems.

Change in Control

Under its takeover bid which expired Mar. 26, 1985 Fleet Aerospace Corporation acquired controlling interest in the company. (83% at July 31, 1985.)

Fathom shareholders were offered units comprising one class A non-voting share and 15 share purchase warrants of Fleet Aerospace for each 15 Fathom shares. Each warrant entitles holder to purchase one class A non-voting share of Fleet at \$12 to Mar. 1, 1990.

Management of Fathom unsuccessfully opposed the takeover.

OPERATIONS & PROPERTIES

The company's plant and head office are located in Mississauga, Ont.

Canada

In Mississauga, Ont., proprietary products manufactured by the company include the family of **FLEXNOSE** fairings for the streamlining of cables to reduce towing drag; the **RIGSTREAM** snap-on system for similar use on mooring cables and low speed towing applications; **PIPESTREAM** fairings used on offshore drill risers to permit drilling in deep waters; and **STARSTRAKE**, an extrusion which prevents vortex shedding and vibration in underwater structures due to current flow. Other products include Tow Fish and Rayfish towed bodies, sonar domes, and variable depth sonar (VDS) handling equipment.

The company also conducts consulting engineering studies in hydrodynamics and ship-borne equipment.

During fiscal 1985, the company entered into the Towed Line Array (TLA) handling systems market.

Fathom Atlantic Limited of Dartmouth, N.S., is engaged in the repair and calibration of a wide range of electrical and electronic instrumentation utilized in the commercial, industrial, medical, telecommunications, marine, offshore, research and development and educational fields; calibration laboratories certified to DND

1015, 1016 and 1019 standards and also complying with CSA Z 299-2; air conditioned instrument repair and inspection; and start-up, commissioned services and maintenance programs for hospitals, research facilities, processing plants and the energy industry.

Products include custom design and manufacture of instrumentation to customer specifications.

CAPITAL EXPENDITURES

Net capital expenditures in recent fiscal years has been as follows:

1976	\$105,267	1981	\$57,129
1977	94,164	1982	153,087
1978	37,092	1983	1,186,413
1979	138,795	1984	384,495
1980	181,781	1985	499,000

HISTORY

Incorporated under the laws of Canada on Dec. 6, 1968 (continued under the Canada Business Corporations Act by Certificate of Continuance dated Sept. 28, 1977), the company was formed to manufacture high technology marine equipment originally designed by Hale & Associates Limited which became a wholly-owned subsidiary subsequent to the company's incorporation.

On May 17, 1978, Fathom Inc. was formed as a wholly-owned subsidiary for the purpose of selling the company's products in western United States and British Columbia.

On Mar. 26, 1980, Fathom Oceanology (U.K.) Limited was formed to function as a marketing arm of the company in the United Kingdom.

Effective Apr. 1, 1981, the company acquired all the issued shares of Almondbury Development Company Limited of Yeovil, England, for \$23,208 cash and the issuance of 67,596 common shares, valued at \$148,555. The subsidiary's name was changed in fiscal 1982, to Almondbury Limited.

Effective Apr. 1, 1982, the company acquired all of the outstanding shares of Data Industries, Inc. of Newport, R.I. for consideration of US\$350,000 cash and 50,000 common shares valued at \$85,000. Additional consideration of US\$150,000 and the issuance of a further 200,000 shares, together with interest at 10% per annum, was to be payable over a five-year period, contingent upon the performance of Data Industries.

Effective Aug. 14, 1982, the company acquired all of the outstanding shares of AIS Limited of Dartmouth, N.S. For a nominal cash consideration, and subsequently changed the subsidiary's name to Fathom Atlantic Limited.

In June, 1983, Tokola Fathom Limited was formed. The company's interest in Tokola is 51%.

During 1984, the company discontinued operations of its wholly owned British subsidiary, Almondbury Limited. Also during 1984, the Federal Business Development Bank sold its 300,000 common shares (11% interest).

During fiscal 1985, the company discontinued and disposed of the operations of its wholly owned United States subsidiary, Fathom Inc.

WHOLLY-OWNED SUBSIDIARIES

Fathom Atlantic Limited—473A Windmill Rd., Dartmouth, N.S. B3B 1B2. Engaged in electromechanical instrument sales, maintenance, calibration and repair service in Atlantic Canada.

Hale & Associates Limited—Mississauga, Ontario. The company also holds a 51% interest in **Tokola Fathom Limited** (49% held by Tokola Offshore Inc.) Head office of Tokola is Portland, Oregon with other offices located in San Francisco and London, Eng.

OFFICERS AND DIRECTORS

Officers—A. G. Dragone, chm. & chief exec. officer; B. W. Gowan, sec.-treas. & chief fin. officer; J. O. Empey, v-p, manufacturing; G. J. Kottick, v-p, engineering & tech. services; J. L. Frisk, contr. & asst. sec.

Directors—A. G. Dragone, G. M. Soloway, J. E. Warrington, D. W. Paterson, R. T. Ruggles, Toronto; J. M. Marsh, Port Colborne; J. M. Beresford, Ottawa; all Ont.

CAPITAL STOCK (At March 31, 1985)

	Author. unlimited	Outstand. 3,027,062 shs.
Common		

Common—Entitled to one vote per share.

Options—As at Mar. 31, 1985, options to purchase up to 9,000 shares at \$2.12 per share were outstanding. Options expire at various dates up to November, 1987.

Warrants—Outstanding at Mar. 31, 1985, was a warrant to purchase 50,000 shares at \$4.00 per share exercisable to October, 1985.

PRICE RANGE OF STOCK

Common					
Year	High	Low	Year	High	Low
1980*	\$2.90	\$2.00	1983	\$6.00	\$2.50
1981	2.95	1.00	1984	3.40	1.25
1982	4.50	1.31	1985	6.00	1.50

*Listed Aug. 14, 1980.

CHANGES IN CAPITAL STOCK

Upon incorporation the company's authorized stock consisted of 1,000,000 common shares without par value. To Mar. 31, 1970, total number of shares outstanding was 781,667 common shares which were issued to incorporators and insiders.

By S.L.P. dated May 14, 1970, the authorized capital was increased by the creation of an additional 1,000,000 common shares without par value.

During fiscal 1971, 400,000 shares were issued publicly for the retirement of bank indebtedness and other general business purposes.

In fiscal 1975, 297,000 shares were issued for cash to a major Canadian financial institution. Authorized capital was increased to 3,000,000 common shares without par value.

During fiscal 1977, 14,000 shares were issued on conversion of 12% notes payable and 12,000 shares were issued under the company's share purchase plan.

By S.L.P. dated Sept. 28, 1977, authorized capital

was increased to an unlimited number of common shares without par value.

During fiscal 1978, 10,000 shares were issued on conversion of 12% notes payable and 11,000 shares were issued under the share purchase plan.

In fiscal 1979, 11,000 shares were issued under the company's share purchase plan.

During fiscal 1980, 11,000 shares were issued under the share purchase plan, 25,500 shares under employee stock options, 286,749 shares on conversion of 12% notes payable and 50 shares were issued on recognition of employee service.

During fiscal 1981, 11,000 shares were issued under the share purchase plan, and 112,000 shares were issued under the stock option plan.

During fiscal 1982, 67,596 common shares were issued as partial consideration on the acquisition of a subsidiary, 3,000 common shares were issued under options and 25,000 shares were acquired by the company and cancelled.

During fiscal 1983, 17,000 shares were issued for \$21,615 cash under the company's stock option plan; 50,000 shares were issued as partial consideration on the acquisition of Data Industries, Inc. for a total value of \$85,000; 700,000 shares were issued as a private placement for \$2,800,000 cash and related expenses of \$100,891 (net of tax recoveries of \$82,880) were charged to retained earnings; 40,000 shares were recorded and are to be issued at an aggregate fair value of \$160,000 as part of the acquisition agreement with Data Industries, Inc.

During fiscal 1984, 28,500 shares were issued for cash and 40,000 shares were issued as additional consideration for the acquisition of Fathom Inc.

During fiscal 1985, 163,000 shares were issued for \$294,000 cash under the company's stock option plan. At Mar. 31, 1985, there was 3,027,062 common shares outstanding.

At the annual meeting Sept. 24, 1985, shareholders approved the authorization of an unlimited number of non-voting class A and preference shares.

LONG TERM DEBT

The company has no long term debt.

INTERIM EARNINGS

Fiscal Year	3 months			6 months			9 months		
	Revenue	Net Inc. Oper.	Earns. Per Sh.	Revenue	Net Inc. Oper.	Earns. Per Sh.	Revenue	Net Inc. Oper.	Earns. Per Sh.
	—\$000's—	—\$—	—\$—	—\$000's—	—\$—	—\$—	—\$000's—	—\$—	—\$—
1979 ..				996	53	0.03			
1980 ..	710	49	0.03	1,400	83	0.05	2,415	149	0.09
1981 ..	824	47	0.03	1,621	100	0.05	2,445	187	0.10
1982 ..	621	d28	d0.01	1,399	8	...	2,656	100	0.05
1983 ..	1,852	118	0.06	4,381	160	0.08	7,202	308	0.15
1984 ..	2,089	13	0.01	3,724	d219	d0.08	6,006	d391	d0.14
1985 ..	2,485	59	0.02	5,264	71	0.02	8,585	112	0.04
1986 ..	2,924	241	0.08						

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended March 31

	1985	1984	1983	1982	1981	1980	1979
	\$000's						
Source:							
Net income, operations	629	d289	479	214	308	273	172
Deprec. & amort.	265	326	190	106	102	112	79
Amort. of goodwill		59	51	12			
Deferred inc. taxes	195		▼43	▼5	33	21	
Issue com. shs.	294	20	2,822	1	46	14	4
Other		22	418	17		87	130
	1,383	138	3,917	345	489	507	385
Application:							
Increase fixed assets	499	385	1,186	153	57	182	139
Advances to Fathom, Inc.	175						
Acq. of subsid.				50			
Loans to off. & empl.				113			
Net funds applied, acq.			291				
Sh. issue expense			101				
Decrease l.-t. debt		54	48	8	13	12	11
Loss, discontinued ops.		38					
Extraordinary item	679	150					
	1,353	627	1,626	324	70	194	150
Increase working capital	30	▲489	2,291	21	419	313	235
▲Decrease. ▼Subtract.							

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Years Ended March 31

	1985	1984	1983	1982	1981	1980	1979
	\$000's						
Contract revenue	11,698	8,339	9,329	4,253	3,537	3,628	2,326
Less: Mfg. & admin. costs	10,259	8,364	8,144	3,609	2,787	2,907	1,892
Net before deprec., etc.	1,439	d25	1,185	644	750	721	434
Less: Deprec. & amort.	265	326	190	106	102	112	79
Amort. goodwill		59	51	12			
Interest expense, net	*165	*63	73	*46	*24	12	43
Research & devel.	230	224	188	107	127	114	
Foreign exchange loss	*18	*25	*17	19	5	*15	10
Income taxes: Current	303	*257	264	237	199	204	130
Deferred	195		*43	*5	33	21	
Loss, non-consol. subsid.	701	170					
Net income, operations	d72	d459	479	214	308	273	172
Add: Extraordinary items†	d1,295	d150				87	130
Net income	d1,367	d609	479	214	308	360	302
Add: Previous ret. earns.	425	1,035	656	479	171	d189	d491
Less: Sh. issue exp.			100				
Prem. on shs. acquired				37			
Retained earnings	942	426	1,035	656	479	171	d189

*Credit.

†Represents provision for losses on discontinued operations in 1985 and 1984; reduction in income taxes due to prior years' losses in 1980 and 1979.

Remuneration—Of officers and directors has been as follows in recent fiscal years: \$464,065 in 1985; n.a. in 1984; \$410,960 in 1983; \$342,125 in 1982; \$319,087 in 1981; \$335,245 in 1980; and \$199,400 in 1979.**Earnings per Share:***

Based on net income, operations:

Common: Earned	d\$0.03	d\$0.16	\$0.23	\$0.11	\$0.16	\$0.17	\$0.11
Fully diluted			0.22	0.11	0.15	0.15	0.09
Based on net income:							
Common: Earned	d\$0.48	d\$0.21	0.23	0.11	0.16	0.22	0.20
Fully diluted			0.22	0.11	0.15	0.19	0.16

*Based on the weighted average number of shares outstanding during the year.

Dividend Record:

Common: None paid.

CONSOLIDATED BALANCE SHEET AS AT MARCH 31

	1985	1984	1983	1982	1981	1980	1979
	\$000's						
Assets:							
Current:							
Cash & s.-t. deposits	1,912	1,365	1,882	331	364	239	233
Accounts receivable	3,133	2,747	1,990	1,868	891	860	602
Due from employees	177	.....	.....	.....	.....	.....	.....
Costs & est. earns. in exc. of billings on incompl. contr.	2,420	1,334	1,400	729	466	291	227
Inventory*	478	650	640	251	212	418	83
Prepaid expenses	277	329	150	62	50	29	25
Income taxes recoverable ..	.....	114	.....	.....	.....	.....	.....
	8,397	6,539	6,062	3,241	1,983	1,837	1,170
Fixed assets:							
Equipment	1,869	1,667	1,454	667	497	451	345
Tooling	398	397	334	293	284	283	274
Less: Accum. deprec.	1,205	1,082	806	638	541	472	400
Patents & leasehold. impr.	217	170	161	24	40	63	36
	1,279	1,152	1,143	346	280	325	255
Goodwill .....	.....	494	648	108	.....	.....	.....
Other assets .....	.....	8	20	113	.....	.....	.....
	9,676	8,193	7,873	3,808	2,263	2,162	1,425
Liabilities:							
Current:							
Bank debt	144	557	548	.....	.....	.....	.....
Accts. pay. & accr.	1,981	1,018	953	819	417	536	297
Uncompl. contracts●	2,355	1,245	426	759	60	334	337
Export support loan .....	.....	.....	.....	.....	.....	50	50
Discontinued operations	679	188	.....	.....	.....	.....	.....
Inc. & other taxes pay.	801	458	562	434	286	116	.....
Curr. venture capital loan .....	.....	.....	.....	.....	13	12	11
Curr. portion l.-t. debt .....	.....	53	52	.....	.....	.....	.....
	5,960	3,519	2,541	2,012	776	1,048	695
Deferred income taxes	195	.....	14	57	54	21	.....
Long-term debt .....	.....	80	134	.....	.....	.....	.....
Notes payable .....	.....	.....	.....	.....	.....	.....	172
Venture capital loan .....	.....	.....	.....	.....	8	22	34
							
Shareholders' Equity							
Common stock	4,463	4,169	4,149	1,083	946	900	713
Retained earnings	d942	425	1,035	656	479	171	d189
	9,676	8,193	7,873	3,808	2,263	2,162	1,425

●Billings in excess of costs and estimated earnings on uncompleted contracts.

*At lower of cost and net realizable value.

Operating leases at Mar. 31, 1985, for facilities and equipment amounted to \$300,000 through 1988 and \$250,000 annually thereafter to 1991.

Contingent Liabilities—In previous years the company received Government of Canada grants of \$909,000 for the development of towing systems, of which \$650,000 may be repayable on the basis of future sales arising from the developed technology. In fiscal 1985, the company also received \$336,000 (\$10,000 in 1984 and \$326,000 in 1983) from the Government of Canada representing 50% of the cost of certain capital equipment. Provided that the company complies with certain conditions regarding the maintenance and use of the equipment for five years, the grants will not be repayable. To Mar. 31, 1985, no provisions had been made with respect to possible repayments.

Working Capital (\$000's):

Current assets	8,397	6,539	6,062	3,241	1,983	1,837	1,170
Current liabilities	5,960	3,519	2,542	2,012	776	1,048	695
Working capital	2,437	3,020	3,520	1,229	1,209	789	475
Ratio	1.41—1	1.86—1	2.39—1	1.61—1	2.56—1	1.75—1	1.68—1

Equities:

Net worth*, (\$000's)	3,521	4,594	5,184	1,739	1,425	1,071	525
Common	\$1.16	\$1.60	\$1.83	\$0.86	\$0.72	\$0.58	\$0.34

*Billings in excess of costs and estimated earnings on uncompleted contracts.

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Ratio	1.41—1	1.86—1	2.39—1	1.61—1	2.56—1	1.75—1	1.68—1

Equities:

Net worth*, (\$000's)	3,521	4,594	5,184	1,739	1,425	1,071	525
Common	\$1.16	\$1.60	\$1.83	\$0.86	\$0.72	\$0.58	\$0.34

*Available for common stock; based on shareholders' equity.

Shares Outstanding:

Common	3,027,062	2,864,062	2,835,562	2,028,562	1,982,966	1,859,966	1,536,667
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HISTORICAL SUMMARY

(As originally stated in company's annual reports for the respective years)

Fiscal Year	Total Assets	Net Fixed Assets	Working Capital	Shldrs.' Equity	Revenue	Net Inc. Oper.	Earns. Per Sh.	Price Range
				\$000's			\$	High \$ Low \$
1970 ..	156	18	d11	80	88	d121	d0.12	
1971 ..	363	71	d19	127	312	d264	d0.27	
1972 ..	555	113	38	33	425	d95	d0.09	
1973 ..	555	100	96	4	441	d29	d0.03	
1974 ..	569	117	d193	d243	641	d247	d0.21	
1975 ..	546	112	d138	d195	919	d130	d0.09	
1976 ..	1,079	158	40	25	1,703	128	0.09	
1977 ..	759	189	39	53	2,036	10	0.01	
1978 ..	742	167	230	219	1,815	91	0.06	
1979 ..	1,425	255	475	525	2,326	172	0.11	
1980 ..	2,162	325	789	1,071	3,628	273	0.17	*2.90 *2.00
1981 ..	2,263	280	1,208	1,425	3,537	308	0.16	2.95 1.00
1982 ..	3,808	346	1,229	1,739	4,253	214	0.11	4.50 1.31
1983 ..	7,873	1,143	3,520	5,184	9,329	479	0.23	6.00 2.50
1984 ..	8,193	1,152	3,020	4,594	8,339	d459	d0.16	3.40 1.25
1985 ..	9,676	1,279	2,437	3,521	11,698	d72	d0.03	

*Listed Aug. 14, 1980.

(This information is obtained from sources we believe to be reliable, but is not guaranteed)

rbas(vm)-csa-19-11—750-850

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